

COX

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MEMORANDUM FOR: DDI

I realize it is carrying coals to Newcastle to offer suggestions for economic consultants session Friday. Nonetheless Gordon Gray has so lamentably failed to get any focus on the economic problem at those consultants sessions I attended, that I venture to labor the obvious again:

1. Whole discussion I attended to date focussed on need for stable economy, i.e. danger of inflation. Nobody questions desirability of controlling inflation but Cutler et al make it sole, overriding objective. Real question is whether this should be given absolute priority, or whether proper balance should be sought between this and other goals.

a. Should we seek stable dollar at all costs, if necessary at expense of adequate growth rate and security outlays? Or should we seek growth rate adequate to support necessary security outlays, if necessary at expense of some creeping inflation?

b. I at least am convinced US will never spend what is necessary for security purposes unless we achieve growth rate sufficient to permit siphoning off higher percentage GNP for security purposes without raising tax rates or resorting to economic controls (both of which are politically infeasible).

c. Hence adequate rate of economic growth is indispensable. This could be achieved of course without inflation, but once again politically infeasible controls would be required. Hence I tend to agree with Slichter that some degree creeping inflation likely and can be accepted as a cost of growth.

d. I note UN ECE annual economic survey said alleged decline in confidence in dollar was a lot of baloney.

2. I labor the above because I don't think Gray should be allowed to focus discussion on stability vs. growth by phrasing questions in an artificial way. Let me put problem in another way — if we place primary emphasis on balanced budget and stable dollar at expense adequate security outlays, resultant ability of Soviets to push us around in cold war arena will produce far greater loss of confidence in US than will slow decline in value of dollar. Moreover, such head-in-sand attitude may well lead us into limwar crises resulting in crash security programs of even greater inflationary impact than gradual step-up of such expenditures.

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